



**TNFORWARD**  
TOP TO BOTTOM  
**REVIEW**

## Chapter 5

## ECONOMIC & COMMUNITY DEVELOPMENT

### HIGHLIGHTS

- Focused recruitment efforts on six key sectors in which the state has a competitive advantage
- Rebalanced business development efforts to include a focus on expanding existing businesses, which account for the overwhelming majority of new jobs created
- Decentralized the department's operations by creating nine regional jobs base camps, each of which is led by a regional director
- Prioritized entrepreneurial economic development activities through the funding of nine regional accelerators and a \$30 million co-investment fund as part of the INCITE program
- Renewed the department's focus on rural and distressed urban areas

### INTRODUCTION

The Department of Economic and Community Development (ECD) is focused on helping achieve Governor Haslam's goal of making Tennessee the No. 1 location in the Southeast for high quality jobs. During the campaign, Governor Haslam discussed a number of strategies for achieving this goal including decentralizing the department by creating regional jobs base camps across the state and ensuring that the state has a business-friendly environment conducive to long-term economic growth.

Historically, the department has been focused on recruiting new industry to the state and overseeing a number of federal and state community development programs including the Three-Star Program, Community Development Block Grants, and the Tennessee Main Street Program among others. While in the past few years the department has ranked high in site selection

magazines for its out-of-state recruitment efforts, Tennessee lags behind many other southeastern states on broader economic indicators such as per capita GDP growth, personal income growth and the unemployment rate.

While in FY 2011 the department had a budget of approximately \$365 million, the department's FY 2012 budget was approximately \$147 million, a nearly 60% year-over-year decrease. This decrease was primarily driven by a decrease in federal energy funds from approximately \$114 million in FY 2011 to approximately \$4 million in FY 2012 as well as a decrease in state funds for the FastTrack program from \$100 million in FY 2011 to \$27 million in FY 2012. The significant decrease in FastTrack funds was especially impactful given that FastTrack is the department's main tool for incentivizing new companies to relocate to the state and for helping existing companies expand.

## APPROACH/METHODOLOGY

ECD's Top to Bottom Review was led by a team of 16 pro bono consultants from a combination of private industry, the non-profit sector and academia. The department's review was both strategic and operational in nature. The initial focus of the review was identifying best practices in economic development to determine the best strategies for achieving the governor's goal of making Tennessee the No. 1 location in the Southeast for high quality jobs. As these strategies began to emerge, the review began to focus on how to best align the department's operations and personnel around successfully implementing these strategies.

During the review, the department prioritized gathering feedback from a large variety of stakeholders. Specifically, the review included 62 interviews with economic development officials from across the state, 42 interviews with existing ECD employees, seven roundtables across the state with a total of 297 business leaders, 12 interviews with national economic development experts, and an analysis of 878 recent ECD investments.

Given the importance of job creation to Governor Haslam's agenda, ECD committed to being the first department to initiate its Top to Bottom Review and to completing its review within 45 days. As a result, the review began in February 2011 and implementation commenced in April.



## RECOMMENDATIONS

**Recommendation 1:** Prioritize the state's out-of-state recruitment efforts by focusing on key sectors in which the state has a competitive advantage.

**Discussion:** Using the clustering methodology made famous by Harvard Business School Professor Michael Porter, ECD undertook an analysis to determine the sectors in which the state has a competitive advantage. The assumption behind this analysis was that the state would be more successful and would better utilize its resources if it focused its recruiting efforts on sectors in which the state has a competitive advantage. After examining data such as the percentage of national employment in a sector that Tennessee is responsible for and the average wages of Tennessee employees in a sector, ECD identified six target sectors: automotive; business services; chemicals and plastics; healthcare; transportation, logistics, and distribution; and energy and advanced manufacturing. ECD assigned a project manager (See Recommendation 2) to each of these sectors, thereby ensuring there is a specific ECD staff member focused on developing deep knowledge and contacts within each sector.

**This recommendation has been completed.**



**Recommendation 2:** Refocus the staff resources dedicated to out-of-state recruitment.

**Discussion:** The Top to Bottom Review found that the resources the department committed to out-of-state recruiting had been declining over time. In order to ensure the state had a strong recruitment effort, ECD completely restructured its recruitment team in part by promoting several of the department's strongest staff members to take leadership roles on the team. In addition, for the first time in over five years, the department budgeted for significant travel for each of its recruitment team members so that they could solicit out-of-state businesses on moving to Tennessee. ECD also significantly increased its commitment to the Tennessee Economic Partnership (TEP) in order for TEP to hold a number of events for the governor and commissioner to meet with leading business leaders and site selection consultants across the country (See Recommendation 3).

**This recommendation has been completed.**

**Recommendation 3:** Ensure the governor and commissioner interact directly with leaders who have the ability to decide whether companies relocate to or expand their operations in the state.

**Discussion:** ECD recognizes that many site selection decisions are made by a very small number of site selection consultants and corporate executives. In order to develop these relationships, Governor Haslam and Commissioner Bill Hagerty spent much of 2011 building relationships with these individuals. In part, this was accomplished through a number of out-of-state recruitment trips to locations including Atlanta, Chicago, Los Angeles, New York, San Francisco as well as Germany, Ireland, and Canada. In each of these markets, the governor and/or commissioner met with leading companies and site selection consultants. In addition, Governor Haslam hosted dinners at the Governor's Residence with CEOs from many of the

department's target sectors to discuss opportunities for helping the sector grow in the state and recruiting out-of-state companies. ECD plans to work with the Governor's Office to maintain this aggressive out-of-state and in-state outreach schedule in coming years.



**Recommendation 4:** Decentralize and streamline the department's structure by establishing nine regional jobs base camps across the state and combining the department's three field organizations into one.

**Discussion:** During Governor Haslam's campaign, he committed to decentralizing the department by establishing regional jobs base camps across the state that focused on leveraging the unique assets of each region. After reviewing a number of ways federal and state agencies organized themselves across the state and examining ECD's three field organizations, ECD decided to combine its three existing field organizations into a single field organization and to decentralize that field organization into nine regional jobs base camps. ECD created a new Regional Director position to lead each of these base camps and aggressively recruited high-performing individuals from both inside and outside of government to accept these critical leadership roles. Each jobs base camp is responsible for a number of activities including calling on existing businesses (See Recommendation 5), developing a regional strategic

plan (See Recommendation 6), supporting the regional entrepreneurial accelerator (See Recommendation 13), supporting business development recruitment projects, and helping align existing workforce development resources with the needs of existing businesses.

**This recommendation has been completed.**

**Recommendation 5:** Enhance outreach to existing businesses.

**Discussion:** ECD's Top to Bottom Review found that over 86% of all new jobs in the state are created by existing businesses. As a result, ECD decided to prioritize the expansion of existing businesses, in part by making one of the primary activities of its jobs base camps meeting with existing businesses to see how business is going and to discuss federal and state programs that might be able to benefit the company. Each of the 27 individuals working in a jobs base camp currently has a goal of meeting with 15 existing businesses per month. In addition, as mentioned above, Governor Haslam hosted dinners with executives from many of the leading companies in Tennessee to discuss opportunities for expanding their company's operations in the state.

**This recommendation has been completed.**

**Recommendation 6:** Lead the creation of regional economic development plans for each of the nine regional jobs base camps.

**Discussion:** In order to ensure each of its jobs base camps had a well-integrated plan that leveraged each region's unique assets, ECD required its base camps to spend a portion of its first six months writing a regional economic development plan. In each region, ECD convened key stakeholder's to gather their input on this plan and reviewed other existing economic development plans from the region. ECD's regional economic development plans were released in December 2011. Each plan includes a strategy for recruitment, existing business

expansion, innovation, and workforce development as well as identifies four or five key action items for 2012. ECD's regional staff will be responsible for ensuring these action items are completed by the end of 2012.

**This recommendation has been completed.**

**Recommendation 7:** Undertake a review of the state's economic development incentives to ensure they are competitive with the incentives offered in neighboring states.

**Discussion:** Throughout 2011, ECD met with leading local economic developers and site selection consultants to gather their feedback on the state's existing economic development incentives. As a result of these conversations, in spring 2012 Governor Haslam proposed legislation to create a new FastTrack Economic Development Grant program that would allow the state to provide cash grants to companies for items such as relocation costs and building retrofits in exceptional circumstances. Both site selection consultants and local economic developers indicated such a program was necessary for Tennessee to remain competitive with its neighboring states. The legislation is currently being considered in the General Assembly.

**Recommendation 8:** Streamline ECD's economic development incentive application process to make it more business friendly and to enhance ECD's ability to conduct appropriate due diligence on each applicant.

**Discussion:** As part of its Top to Bottom Review, ECD identified opportunities to improve, modernize, and streamline its economic development incentive application process. In Fall 2011, ECD redesigned all of its economic development incentive processes to decrease the number of forms that companies had to fill out and to ensure that these forms gathered the type of legal and personal information necessary for conducting appropriate due diligence on applicants. These new processes were rolled out statewide in January 2012, but certain due diligence requests were not included

because the department needs to ensure these documents will remain confidential, as they will contain sensitive company financial information. Legislation to keep this due diligence information confidential is currently pending in the General Assembly.

**Recommendation 9:** Create a new internal database for tracking recruitment and expansion projects so that any member of ECD's business development team can see up-to-the date information on projects and so that projects can be tracked from the point of initial contact until their completion.

**Discussion:** As part of its Top to Bottom Review, ECD found that information about recruitment and expansion projects was kept in a number of spreadsheets across the department resulting in significant duplication and an inability for any single employee to see all the information about a specific project at any one time. As a result, ECD has launched an effort to build a new business development database for tracking projects from the initial point of contact until completion. The first phase of this database was rolled out in November 2011 and subsequent phases will roll out during 2012 and 2013.

**Recommendation 10:** Develop a new transparency website containing detailed information on the grants the department provides to specific communities and companies.

**Discussion:** ECD's Top to Bottom Review found that Tennessee was one of the least transparent states in the nation in terms of releasing information on grants it provided to specific communities and companies. Given Governor Haslam's commitment to transparency, ECD is currently in the process of developing a new transparency website that will contain detailed information on the grants ECD provides to specific communities and companies. ECD expects this new website to be operational by spring 2012.

**Recommendation 11:** Better integrate the Film, Entertainment & Music Commission into the department and broaden the commission's activities.

**Discussion:** Historically, the Film, Entertainment & Music Commission has been administratively attached to ECD but has not been integrated into the department's day-to-day operations. In addition, despite its name, the commission has focused almost exclusively on recruiting film and television productions to the state with minimal attention being paid to the music industry, one of the state's most dominant industries. As part of its Top to Bottom Review, the department decided to better integrate the commission into ECD by making the commission's director report directly to one of ECD's assistant commissioners. In addition, ECD recruited five new board members for the commission and helped rebalance the commission's focus by creating a Director of Music and Business Development position that will be focused on corporate relocation and expansion opportunities in the music industry.

**This recommendation has been completed.**

**Recommendation 12:** Launch an export promotion program to assist Tennessee businesses with selling their goods in international markets.

**Discussion:** Although at points in the past ECD had an aggressive export promotion program, no such program has existed for the past several years. Given the rapid growth in international markets, ECD decided to relaunch its export promotion program. To accomplish this, ECD applied and received a \$375,000 STEP grant from the U.S. Small Business Administration. In December 2011, ECD launched the TNTrade Program, which will include a trade mission to China and South Korea in 2012 focused on the medical device industry as well as a Market Access Program by which qualified businesses can receive up to \$5,000 in reimbursement for qualified export promotion activities. ECD hopes to receive additional federal funding for the TNTrade program in future years.

**This recommendation has been completed.**

**Recommendation 13:** Enhance entrepreneurship across the state.

**Discussion:** ECD's Top to Bottom Review revealed that approximately 13% of all jobs in the state are created by new businesses. In order to enhance entrepreneurship across the state, ECD helped launch Startup Tennessee, a statewide public-private partnership focused on enhancing entrepreneurial activities across the state. In addition, the state ran a competitive grant process to fund nine regional entrepreneurial accelerators, one in each of ECD's nine jobs base camp regions. Each of these accelerators is focused on helping entrepreneurs develop their business concepts into early-stage companies. Most of the accelerators are scheduled to begin launching their training programs in early 2012.

**Recommendation 14:** Enhance capital available to early- and growth-stage companies in Tennessee.

**Discussion:** ECD's Top to Bottom Review found that Tennessee has one of the lowest amounts of venture capital investment per capita in the nation. To enhance the capital available to early- and growth-stage companies, ECD is in the process of launching the \$29.7 million INCITE Co-Investment Fund, which is funded by federal funds made available through the State Small Business Credit Act. The fund, which will be administered by the Tennessee Technology Development Corporation, will co-invest alongside experienced, professional investors and enhance the capital available to early- and growth-stage companies.

**Recommendation 15:** Enhance job creation opportunities created by technology transfer from the state's leading research institutions.

**Discussion:** Although Tennessee is one of the top ten states in the nation in terms of total and federal research expenditures, the state ranks in the bottom ten in terms of licensing revenues and new startup firms launched based on technologies from in-state research institutions. In 2011, ECD convened leaders and tech transfer officers from the state's leading research institutions to discuss ways to

dramatically enhance tech transfer in the state. These discussions are ongoing, and ECD is hopeful to work with the Tennessee Technology Development Corporation to enhance tech transfer in 2012.

**Recommendation 16:** Launch a rural economic development initiative and create a new senior staff position to oversee this initiative.

**Discussion:** ECD's Top to Bottom Review revealed that while the entire state had a very high unemployment rate, some rural counties were experiencing exceptionally high unemployment rates near or above 20%. To address the specific challenges in rural areas, ECD launched a rural economic development initiative in Fall 2011 focused on enhancing manufacturing, business services, agriculture, and tourism opportunities in rural communities. As part of this effort, ECD is currently developing a site certification program, which in part will help rural communities develop sites that can compete for large recruitment projects, and a rural business service initiative that's goal is to increase the number of work-at-home customer support jobs available in rural communities. In addition, ECD is strengthening its partnerships with the Tennessee Department of Tourism and the Tennessee Department of Agriculture to identify opportunities to enhance agriculture and tourism economic development opportunities in rural areas. ECD has created a new senior staff positioned to oversee this initiative.

**Recommendation 17:** Complete a comprehensive review of federal and state regulations that negatively affect the state's business climate.

**Discussion:** One of Governor Haslam's commitments during his campaign was to ensure that Tennessee has a business friendly environment conducive to long-term economic growth. To assist with this, ECD launched a regulatory review in May 2011 focused on identifying regulations that were burdensome to businesses. As part of this review, ECD surveyed businesses and held twelve roundtables with business leaders and corporate compliance officers across the state. In January



2012, ECD released the results of this review. The review's primary finding was that the main regulatory challenges facing businesses were not specific existing regulations but rather the way existing regulations were being interpreted and enforced. As a result, the state is integrating discussions of regulation enforcement into state government's larger customer service initiative.

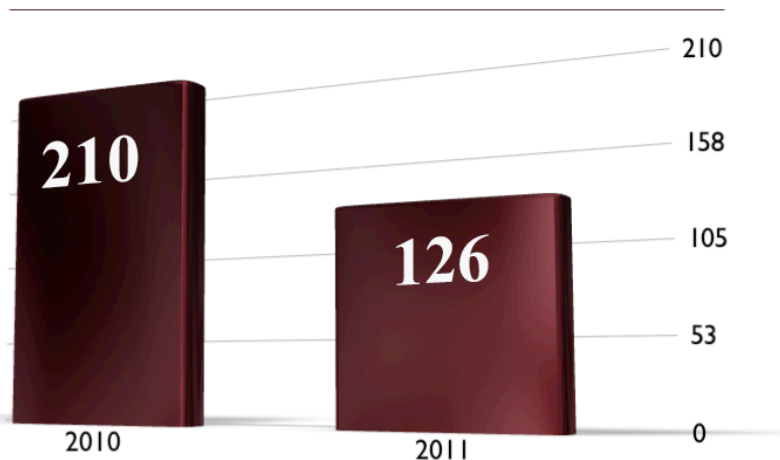
**This recommendation has been completed.**

**Recommendation 18:** Align ECD's organization structure and personnel with the department's new strategic objectives.

**Discussion:** Given that ECD's Top to Bottom Review resulted in several shifts in strategy, ECD decided it needed to ensure its organizational structure was aligned with this new strategy. As part of this effort, ECD combined its three field organizations into one (See Recommendation 4) and reduced its overall staff count by 40%. In addition, 50% of ECD's current 126 employees are either new to the department or new to their position in the department, indicating the significant nature of the restructuring that occurred.

**This recommendation has been completed.**

## ECD Staff



**Recommendation 19:** Eliminate ECD's local planning office.

**Discussion:** At the start of the Top to Bottom Review, ECD's local planning office accounted for approximately 70 of the 210 employees in the department. During the review, it became clear that the local planning office – while important to local communities – was not well aligned with ECD's core mission of job creation. Moreover, a review of other states found that most local planning activities occurred at the regional or local level. As a result, ECD decided to eliminate its local planning office. To help with this transition, ECD provided approximately \$1 million in local planning transition grants to help regional and local organizations build out their local planning capacity. Qualitative evidence suggests most communities have found alternative ways to provide local planning services, most often by either sharing local planners across multiple communities, partnering with the local development district or contracting with private providers.

**This recommendation has been completed.**

**Recommendation 20:** Develop a dashboard for monitoring the department's performance on a monthly basis.

**Discussion:** In order to ensure its new strategic plan is effective, ECD is committed to constantly and objectively measuring its progress. As a result, ECD has developed a one-page monthly dashboard that collects key information from business development, regional jobs base camp, and other key department personnel that allows for monthly monitoring of key metrics including macroeconomic indicators, job creation, existing business visits, and meetings with key stakeholders. ECD is working to complete this dashboard by the 10th of each month so that it can be shared with all department personnel and the Governor's Office.

**This recommendation has been completed.**